

ADAMS TOWNSHIP SCHOOL DISTRICT
PAINESDALE, MICHIGAN

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Adams Township School District
Painesdale, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adams Township School District as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Adams Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Adams Township School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2006 on our consideration of Adams Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Adams Township School District's basic financial statements. The additional information on pages 36 to 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

July 27, 2006

Bruce A. Rukkila, CPA, PC
Certified Public Accountants



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Adams Township School District
Painesdale, Michigan

We have audited the general purpose financial statements of Adams Township School District as of and for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Adams Township School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

July 27, 2006

This section of Adams Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

After three straight years without an increase in the state aid foundation allowance, 2005-06 saw an increase of \$175 per student.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

- **Overview of the Financial Statements - Continued**

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Project Fund, School Food Service, and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, Capital Projects, School Food Service and Athletic Funds.

Summary of Net Assets

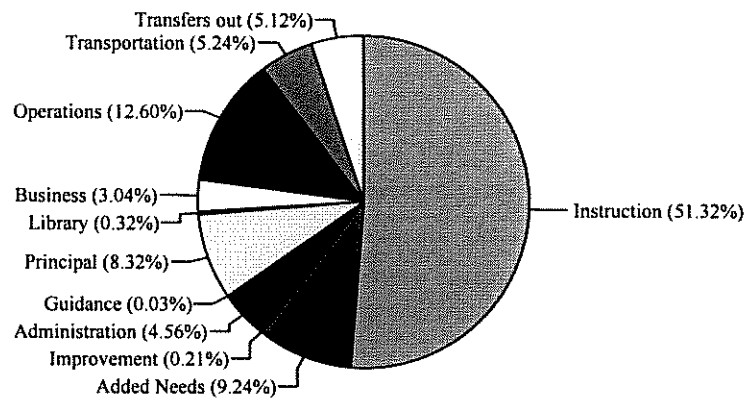
| | 2006 | 2005 |
|--|---------------------|---------------------|
| Assets | | |
| Current and other assets | \$ 1,009,035 | \$ 1,085,511 |
| Restricted cash | 49,879 | 0 |
| Restricted investments | 701,508 | 657,988 |
| Capital assets - Net of accumulated depreciation | 6,353,266 | 6,528,665 |
| Total Assets | \$ 8,113,688 | \$ 8,272,164 |
| Liabilities | | |
| Current liabilities | \$ 947,047 | \$ 978,468 |
| Long-term liabilities | 7,047,560 | 7,169,610 |
| Total Liabilities | 7,994,607 | 8,148,078 |
| Net Assets | | |
| Invested in property and equipment - net of related debt | (963,609) | (929,323) |
| Restricted | 708,640 | 668,205 |
| Reserved | 36,241 | 0 |
| Unrestricted | 337,809 | 385,204 |
| Total net assets | 119,081 | 124,086 |
| Total Liabilities and Net Assets | \$ 8,113,688 | \$ 8,272,164 |

Results of Operations in Governmental Activities

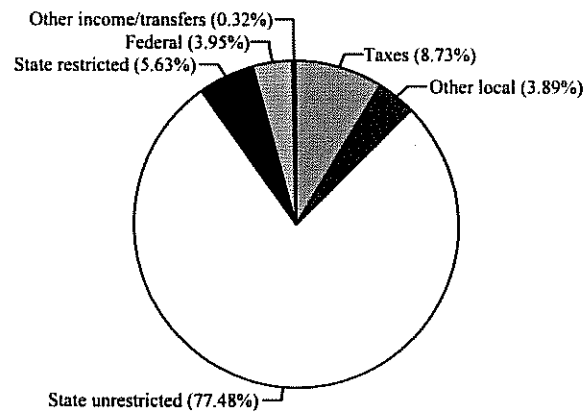
| | 2006 | 2005 |
|-----------------------------------|-------------------|-------------------|
| Program Revenue: | | |
| Charges for services | \$ 76,301 | \$ 84,001 |
| Grants and contributions | 538,344 | 506,268 |
| General Revenue: | | |
| Property taxes | 738,776 | 620,846 |
| State foundation allowance | 2,785,490 | 2,822,513 |
| Other | 95,409 | (32,247) |
| Total Revenue | 4,234,320 | 4,001,381 |
| Functions/Program Expenses | | |
| Instruction | 2,385,127 | 2,273,817 |
| Support services | 1,256,825 | 1,308,124 |
| Capital projects | 0 | 0 |
| School food services | 205,613 | 190,205 |
| Athletics | 69,627 | 63,107 |
| Interest on long-term debt | 270,203 | 245,654 |
| Other debt | 51,930 | 54,330 |
| Total Expenses | 4,239,325 | 4,135,237 |
| Change in Net Assets | (5,005) | (133,856) |
| Net Assets - Beginning | 124,086 | 257,942 |
| Net Assets - Ending | \$ 119,081 | \$ 124,086 |

The following charts highlight the District's General Fund activities:

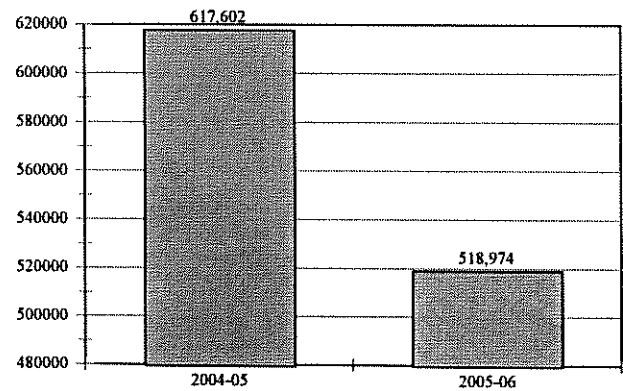
2005-06 Expenditures



2005-06 Revenues



Fund Balance Comparison



Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

| | Current Year | Prior Year | Change |
|---------------------------|-----------------|--------------|-------------|
| General Fund: | | | |
| Revenues/Transfers | \$ 3,595,173 | \$ 3,519,802 | \$ 75,371 |
| Expenditures/Transfers | \$ 3,693,801 | \$ 3,607,998 | \$ 85,803 |
| Fund Balance | \$ 518,974 | \$ 617,602 | \$ (98,628) |
| Debt Retirement Fund: | | | |
| Revenues/Transfers | \$ 470,934 | \$ 500,976 | \$ (30,042) |
| Expenditures/Transfers | \$ 357,295 | \$ 375,298 | \$ (18,003) |
| Fund Balance | \$ 708,640 | \$ 595,001 | \$ 113,639 |
| Capital Projects Fund: | | | |
| Revenues/Transfers | \$ 11,565 | \$ 5,000 | \$ 6,565 |
| Expenditures/Transfers | \$ 0 | \$ 0 | \$ 0 |
| Fund Balance | \$ 16,565 | \$ 5,000 | \$ 11,565 |
| School Food Service Fund: | | | |
| Revenues/Transfers | \$ 223,030 | \$ 180,469 | \$ 42,561 |
| Expenditures/Transfers | \$ 205,613 | \$ 190,205 | \$ 15,408 |
| Fund Balance | \$ 24,732 | \$ 7,315 | \$ 17,417 |
| Athletic Fund: | | | |
| Revenues/Transfers | \$ 66,272 | \$ 63,331 | \$ 2,941 |
| Expenditures/Transfers | \$ 68,234 | \$ 61,714 | \$ 6,520 |
| Fund Balance | \$ 16,279 | \$ 18,241 | \$ (1,962) |

General Fund - The District's state revenue had a decrease in unrestricted state aid in the amount of \$37,023 and an increase in special education and at-risk funding for \$48,880 and \$4,615, respectfully. Federal sources decreased by \$26,389 for Title I and the District received additional grants through the Homeland Security and MiBIsi totaling \$10,668. Local sources increased by \$78,388 representing tax revenue, Universal Service Funds, investment income and other local sources. Transfers from other schools increased by \$11,409.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. This year we borrowed \$44,582 from the School Bond Loan Fund in order to make the interest and principal payments.

Capital Projects Fund - The Capital Projects Fund is used for the purpose of setting aside money from the General Fund for future building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time.

School Food Service Fund - The Food Service program for the District has required operating transfers from the General Fund in recent years. This year a transfer of \$26,033. The increase in revenues and expenditures is related primarily to the increase in meal charges and cost of supplies.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The transfer from General Fund for this year totaled \$20,000. The District has required fund-raising to be performed for each sport to assist in the in the amount needed from General Fund.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2006, the original budget was adopted on June 8, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

| | Original Budget | Final Budget | Actual | Variance with final budget | % Variance |
|--------------------------------|--------------------|-----------------|--------------|----------------------------------|---------------|
| Revenues | \$ 3,455,477 | \$ 3,484,218 | \$ 3,583,764 | \$ 99,546 | 2.8% |
| Expenditures | | | | | |
| Instruction | \$ 2,263,423 | \$ 2,270,645 | \$ 2,236,730 | \$ 33,915 | 1.5% |
| Supporting services | 1,762,384 | 1,312,086 | 1,267,926 | 44,160 | 3.5% |
| Total expenditures | \$ 4,025,807 | \$ 3,582,731 | \$ 3,504,656 | \$ 78,075 | 2.2% |
| Other financing sources (uses) | \$ 279,000 | \$ (195,000) | \$ (177,736) | \$ (17,264) | 10% |

Variance between the final budget and actual are minimal. The District was diligent in overseeing financial issues.

Capital Assets and Debt Administration

Capital Assets: The District's net investment in capital assets decreased by \$175,399 during the fiscal year. The district purchased a copier for the elementary school. The decrease was due to depreciation.

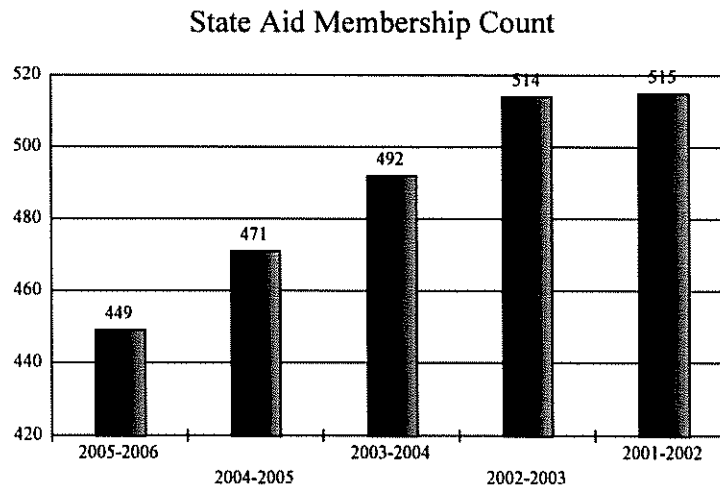
Additional information on the District's capital assets can be found on a page 25 of this report.

Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$7,024,433. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$169,878 during the fiscal year. The School Bond Loan Fund's accrued interest was increased by \$68,678.

Additional information on the District's long-term debt can be found on a page 26 of this report.

Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations

The graph depicts 4.9% decline in the number of students enrolled from the previous year, using the State Aid Membership Count.



Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations (Continued)

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175, the first in three years.

Approximately seventy-eight percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against projected State Aid to meet payroll needs during the months of August and September. The District borrowed \$475,000 for the 2005-06 school year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Adams Township School District.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 393,707 |
| Taxes receivable | 56,402 |
| Accounts receivable | 5,161 |
| Inventory | 4,224 |
| Due from other governmental units | <u>549,541</u> |
| TOTAL CURRENT ASSETS | <u>1,009,035</u> |
| NON-CURRENT ASSETS: | |
| Restricted cash | <u>49,879</u> |
| Restricted investments | <u>701,508</u> |
| Capital assets | 7,623,826 |
| Less: Accumulated depreciation | <u>(1,270,560)</u> |
| | <u>6,353,266</u> |
| TOTAL NON-CURRENT ASSETS | <u>6,403,145</u> |
| TOTAL ASSETS | <u>\$ 8,113,688</u> |
| LIABILITIES: | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 12,296 |
| Accrued expenses | 322,713 |
| Accrued interest | 332,355 |
| Due to other governmental units | 37,063 |
| Short-term note payable | 63,247 |
| Notes payable within one year | 14,373 |
| Bonds payable within one year | <u>165,000</u> |
| TOTAL CURRENT LIABILITIES | <u>947,047</u> |
| NON-CURRENT LIABILITIES | |
| Bonds payable, due in more than one year | 5,595,000 |
| Installment loans payable, due in more than one year | 13,773 |
| Compensated absences | 202,500 |
| School bond loan fund payable | <u>1,236,287</u> |
| TOTAL NON-CURRENT LIABILITIES | <u>7,047,560</u> |
| TOTAL LIABILITIES | <u>7,994,607</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | (963,609) |
| Restricted for debt service | 708,640 |
| Reserved | 40,465 |
| Unreserved | <u>333,585</u> |
| TOTAL NET ASSETS | <u>119,081</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,113,688</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

| <u>FUNCTIONS/PROGRAMS</u> | <u>Program Revenues</u> | | | <u>Governmental Activities</u> |
|---|-------------------------|---------------------------------|---|--|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
| Government Activities: | | | | |
| Instruction and instructional support | \$ 2,385,127 | \$ 7,900 | \$ 404,856 | \$ (1,972,371) |
| Support services | 1,256,825 | - | - | (1,256,825) |
| School service | 205,613 | 63,366 | 133,488 | (8,759) |
| Athletics | 69,627 | 29,461 | - | (40,166) |
| Interest on long-term debt | 270,203 | - | - | (270,203) |
| Other debt service | 51,930 | - | - | (51,930) |
| Total Governmental Activities | <u>\$ 4,239,325</u> | <u>\$ 100,727</u> | <u>\$ 538,344</u> | <u>(3,600,254)</u> |
| General Revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general operation: | | | | 313,912 |
| Property taxes, levied for debt service | | | | 424,864 |
| State school aid - unrestricted | | | | 2,785,490 |
| Interest and investment earnings | | | | 54,752 |
| Other | | | | 75,365 |
| Transfers | | | | <u>(59,134)</u> |
| Total general revenues and transfers | | | | <u>3,595,249</u> |
| Change in Net Assets | | | | (5,005) |
| Net Assets - Beginning | | | | <u>124,086</u> |
| Net Assets - Ending | | | | <u>\$ 119,081</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2006

| | <u>General</u> | <u>Debt Service Fund</u> | <u>Other Non-major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------------|----------------------------------|---|---|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 343,323 | \$ - | \$ 50,384 | \$ 393,707 |
| Investments | - | 661,595 | - | 661,595 |
| Taxes receivable | 22,995 | 33,407 | - | 56,402 |
| Accounts receivable | - | - | 5,161 | 5,161 |
| Inventory | - | - | 4,224 | 4,224 |
| Due from other governmental units | 548,663 | - | 878 | 549,541 |
| Due from other funds | 1,068 | - | - | 1,068 |
| Restricted cash | 36,241 | 13,638 | - | 49,879 |
| TOTAL ASSETS | <u>\$ 952,290</u> | <u>\$ 708,640</u> | <u>\$ 60,647</u> | <u>\$ 1,721,577</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 10,293 | \$ - | \$ 2,003 | \$ 12,296 |
| Accrued expenses | 322,713 | - | - | 322,713 |
| Due to other governmental units | 37,063 | - | - | 37,063 |
| Due to other funds | - | - | 1,068 | 1,068 |
| Short-term notes payable | 63,247 | - | - | 63,247 |
| TOTAL LIABILITIES | <u>433,316</u> | <u>-</u> | <u>3,071</u> | <u>436,387</u> |
| FUND BALANCES: | | | | |
| Reserved | 36,241 | 708,640 | 4,224 | 749,105 |
| Unreserved | 482,733 | - | 53,352 | 536,085 |
| TOTAL FUND BALANCES | <u>518,974</u> | <u>708,640</u> | <u>57,576</u> | <u>1,285,190</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 952,290</u> | <u>\$ 708,640</u> | <u>\$ 60,647</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|-------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 6,353,266 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. | (7,187,020) |
| Accrued interest is not included as a liability in governmental funds | (332,355) |
| Net assets of governmental activities | <u>\$ 119,081</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

| | General Fund | Debt Service Fund | Other Non-major Governmental Funds | Totals |
|--|-------------------|-------------------------|--|------------------|
| REVENUES | | | | |
| Local sources | \$ 453,929 | \$ 426,352 | \$ 109,937 | \$ 990,218 |
| State sources | 2,987,744 | - | 14,459 | 3,002,203 |
| Federal sources | 142,091 | - | 119,029 | 261,120 |
| Total revenues | <u>3,583,764</u> | <u>426,352</u> | <u>243,425</u> | <u>4,253,541</u> |
| EXPENDITURES | | | | |
| Instruction | 2,236,730 | - | - | 2,236,730 |
| Supporting services | 1,267,926 | - | - | 1,267,926 |
| Debt service | - | 192,295 | - | 192,295 |
| School service | - | - | 205,613 | 205,613 |
| Athletics | - | - | 68,234 | 68,234 |
| Total expenditures | <u>3,504,656</u> | <u>192,295</u> | <u>273,847</u> | <u>3,970,798</u> |
| Excess (deficiency) of revenue over expenditures | <u>79,108</u> | <u>234,057</u> | <u>(30,422)</u> | <u>282,743</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in (out) | (57,442) | - | 57,442 | - |
| Incoming transfers from other districts | 11,409 | - | - | 11,409 |
| Interest payments on loans | (10,610) | - | - | (10,610) |
| Other outgoing transfers | (70,543) | - | - | (70,543) |
| Debt principal payments | (50,550) | (165,000) | - | (215,550) |
| Loan proceeds | - | 44,582 | - | 44,582 |
| Total other financing sources (uses) | <u>(177,736)</u> | <u>(120,418)</u> | <u>57,442</u> | <u>240,712</u> |
| NET CHANGE IN FUND BALANCE | (98,628) | 113,639 | 27,020 | 42,031 |
| FUND BALANCES - BEGINNING OF YEAR | 617,602 | 595,001 | 30,556 | |
| FUND BALANCES - END OF YEAR | \$ 518,974 | \$ 708,640 | \$ 57,576 | |

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|-------------------|
| Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation | (175,399) |
| Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid | (81,428) |
| Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds | (4,669) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 214,460 |
| Changes in net assets of governmental activities | <u>\$ (5,005)</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

| | <u>Fiduciary Fund</u> |
|--------------------------|---------------------------|
| ASSETS: | |
| Cash | \$ 63,422 |
| TOTAL ASSETS | <u>\$ 63,422</u> |
| LIABILITIES: | |
| Due to student groups | \$ 19,276 |
| Due to scholarship funds | <u>44,146</u> |
| TOTAL LIABILITIES | <u>\$ 63,422</u> |

The accompanying notes to the financial statements are an integral part of this statement.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Adams Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Adams Township School District (the "District") is governed by the Adams Township School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Adams Township School District Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Adams Township School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, and Athletic Activities.

Fiduciary Funds:

The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by Adams and Bohemia Townships and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 of each year and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

| <u>Fund</u> | <u>Mills</u> |
|---|--------------|
| General fund - Non-homestead | 18.00 |
| Debt service fund - Homestead and non-homestead | 11.45 |

Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

Inventory in the School District's Special Revenue Fund consists of food, a la carte items, and USDA commodities totaling \$4,224. The School District utilizes the consumption method of recording inventories of food supplies in the School Food Service Fund. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

All other funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-------------|
| Buildings and additions | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and other equipment | 5-10 years |

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$202,500, consisted of retirement incentives.

Teachers - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2006, there were 19 teachers who qualified for the early retirement incentive, with a potential liability of \$142,500.

Twelve Month Employees - The District's contract with the Adams Township School District Support Personnel Association includes a retirement incentive payment to eligible retiring twelve month employees with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2006, there were three employees who qualified for the early retirement incentive, with a potential liability to the District of \$37,500.

School Year Employees - The District's contract with the Adams Township School District Support Personnel Association MEA/NEA includes a retirement incentive payment to eligible retiring school year employees and teachers with at least 10 years of service. The minimum benefit is \$3,375 and is increased each 10 years by \$1,125 with a maximum of \$5,625. As of June 30, 2006, there were eight employees who qualified for the early retirement incentive, with a potential liability to the District of \$22,500.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

NOTE C - CASH AND INVESTMENTS

As of June 30, 2006 the District had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (Years) | Rating | % |
|-------------------------------------|-------------------|--|--------|----------------|
| U.S. Agency Notes and Bonds | \$ 690,845 | .0837 | AAA | 98.48% |
| U.S. Treasury Notes | 10,663 | .0837 | AAA | 1.52% |
| Total fair value | <u>\$ 701,508</u> | | | <u>100.00%</u> |
| Portfolio weighted average maturity | | <u>.0837</u> | | |

1 day maturity equals 0.0027, one year equals 1.00

Interest Rate Risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE C - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$324,738 of the District's bank balance of \$573,768 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

| | Governmental Activities | Fiduciary Funds | Total Primary Government |
|---------------------------------|----------------------------|--------------------|-----------------------------|
| Unrestricted cash | \$ 393,707 | \$ 0 | \$ 393,707 |
| Restricted cash | 49,879 | 63,422 | 113,301 |
| Total cash and cash equivalents | 443,586 | 63,422 | 507,008 |
| Investments | 701,508 | 0 | 701,508 |
| Total deposits and investments | \$ 1,145,094 | \$ 63,422 | \$ 1,208,516 |

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

| | Balance 06/30/05 | Additions | Deletions | Balance 06/30/06 |
|----------------------------------|---------------------|--------------|-----------|---------------------|
| Land | \$ 2 | \$ 0 | \$ 0 | \$ 2 |
| Building and additions | 7,046,439 | 0 | 0 | 7,046,439 |
| Improvements other than building | 19,200 | 0 | 0 | 19,200 |
| Equipment and furniture | 141,422 | 15,625 | 0 | 157,047 |
| Vehicles | 28,160 | 0 | 0 | 28,160 |
| School buses | 372,978 | 0 | 0 | 372,978 |
| Subtotal | 7,608,201 | 15,625 | 0 | 7,623,826 |
| Accumulated depreciation: | | | | |
| Building and additions | 732,561 | 143,682 | 0 | 876,243 |
| Improvements other than building | 2,045 | 960 | 0 | 3,005 |
| Equipment and furniture | 67,727 | 10,400 | 0 | 78,127 |
| Vehicles | 26,523 | 1,637 | 0 | 28,160 |
| School buses | 250,680 | 34,345 | 0 | 285,025 |
| | 1,079,536 | 191,024 | 0 | 1,270,560 |
| Net capital assets | \$ 6,528,665 | \$ (175,399) | \$ 0 | \$ 6,353,266 |

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE D - FIXED ASSETS (Continued)

Depreciation expense was charged to activities of the School District as follows:

| | |
|-------------------------------|-------------------|
| Governmental activities | |
| Athletic | \$ 1,393 |
| Instruction | 151,272 |
| Operations | 4,014 |
| Transportation | 34,345 |
| Total governmental activities | <u>\$ 191,024</u> |

NOTE E - RECEIVABLES

Receivables from governmental units at June 30, 2006 consist of the following:

| | | | |
|-----------|-------------------|-------------------|-------------------|
| | General Fund | School Service | Total |
| State aid | <u>\$ 548,663</u> | <u>\$ 878</u> | <u>\$ 549,541</u> |

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

| Fund | Inter-fund Receivable | Fund | Inter-fund Payable |
|---------------------|--------------------------|---------------------|-----------------------|
| General | \$ 1,068 | General | \$ 0 |
| School Food Service | 0 | School Food Service | 1,068 |
| TOTAL | <u>\$ 1,068</u> | TOTAL | <u>\$ 1,068</u> |

| Fund | Transfer In | Fund | Transfer Out |
|---------------------|------------------|---------------------|------------------|
| General | \$ 0 | General | \$ 57,442 |
| Capital Projects | 11,409 | Capital Projects | 0 |
| School Food Service | 26,033 | School Food Service | 0 |
| Athletic | 20,000 | Athletic | 0 |
| TOTAL | <u>\$ 57,442</u> | TOTAL | <u>\$ 57,442</u> |

NOTE G - LONG TERM DEBT

1997 ADVANCE REFUNDING

On February 14, 1997, the District issued \$2,520,000 of general obligation-unlimited tax bonds to advance refund \$2,275,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to pay certain costs of issuance relating to the partial refunding of 1994 School Building and Site Bonds dated November 1, 1994 and to establish an "Escrow Fund." The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2003.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 3.60% to 5.50% per annum. Interest payments started on November 1, 1997, and are payable semi-annually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE G - LONG TERM DEBT (Continued)

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2008 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2007 at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2024, are term bonds subject to mandatory redemption in part.

The principal amount of the Term Bonds to be redeemed on the dates set forth above shall be reduced by the principal amount of the Term Bonds which have been previously redeemed or called for redemption (other than as a result of mandatory redemption) or purchased or acquired by the Issuer and delivered to the Transfer Agent. The Issuer may satisfy mandatory redemption requirements by purchasing and surrendering Term Bonds in lieu of the calling of such Term Bonds for redemption.

| Payable School Year | November 1 Interest | May 1 Principal | May 1 Interest | Total |
|------------------------|------------------------|---------------------|-------------------|---------------------|
| 2006-2007 | \$ 56,283 | \$ 110,000 | \$ 56,283 | \$ 222,566 |
| 2007-2008 | 53,642 | 110,000 | 53,642 | 217,284 |
| 2008-2009 | 50,948 | 110,000 | 50,948 | 211,896 |
| 2009-2010 | 48,198 | 110,000 | 48,198 | 206,396 |
| 2010-2011 | 45,392 | 110,000 | 45,392 | 200,784 |
| 2011-2012 | 42,533 | 110,000 | 42,533 | 195,066 |
| 2012-2013 | 39,645 | 115,000 | 39,645 | 194,290 |
| 2013-2018 | 151,656 | 585,000 | 151,656 | 888,312 |
| 2018-2023 | 68,750 | 625,000 | 68,750 | 762,500 |
| 2023-2024 | 3,438 | 125,000 | 3,438 | 131,876 |
| TOTAL | \$ 560,485 | \$ 2,110,000 | \$ 560,485 | \$ 3,230,970 |

2001 BUILDING AND SITE BONDS - SERIES A

On July 26, 2001, the School District issued \$1,860,000 of unlimited tax general obligation bonds to finance the remodeling, refurbishing, and re-equipping the high school; erecting, furnishing, and equipping an addition; developing and improving the site; and acquiring and installing educational technology improvements.

The bond issue (denominations of \$5,000 or multiples thereof) matures as indicated below with interest at varying rates of 4.20% to 5.00% per annum. Interest payments started on May 1, 2002, and are payable semi-annually on November 1 and May 1 as indicated. The bonds are to be both term and serial.

The Bonds, or portions of Bonds in multiples of \$5,000 of this issue maturing in the years 2012 and thereafter, shall be subject to redemption prior to maturity, at the option of the School District in such order as the School District may determine and by lot within any maturity, on any interest payment date on or after May 1, 2011, at par and accrued interest to the date fixed for redemption.

The Bonds maturing May 1, 2016, May 1, 2021, May 1, 2026, and May 1, 2031 are term bonds subject to mandatory redemption in part.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE G - LONG-TERM DEBT (Continued)

| Payable School Year | November 1 Interest | May 1 Principal | May 1 Interest | Total |
|------------------------|------------------------|---------------------|-------------------|---------------------|
| 2006-2007 | \$ 40,525 | \$ 50,000 | \$ 40,525 | \$ 131,050 |
| 2007-2008 | 39,450 | 50,000 | 39,450 | 128,900 |
| 2008-2009 | 38,350 | 50,000 | 38,350 | 126,700 |
| 2009-2010 | 37,250 | 50,000 | 37,250 | 124,500 |
| 2010-2011 | 36,125 | 50,000 | 36,125 | 122,250 |
| 2011-2012 | 35,000 | 50,000 | 35,000 | 120,000 |
| 2012-2013 | 33,750 | 50,000 | 33,750 | 117,500 |
| 2013-2018 | 148,125 | 325,000 | 148,125 | 621,250 |
| 2018-2023 | 103,125 | 375,000 | 103,125 | 581,250 |
| 2023-2028 | 56,250 | 375,000 | 56,250 | 487,500 |
| 2028-2031 | 11,250 | 225,000 | 11,250 | 247,500 |
| TOTAL | \$ 579,200 | \$ 1,650,000 | \$ 579,200 | \$ 2,808,400 |

2001 BUILDING AND SITE BONDS - SERIES B

On October 9, 2001, the School District issued \$2,000,000 of unlimited tax general obligation, Qualified Zone Academy Bonds to finance the remodeling, refurbishing, and re-equipping the high school; developing and improving the site; and acquiring and installing educational technology improvements.

The bond issue (denominations of \$5,000 or multiples thereof) matures as indicated below and bears an interest rate of 0.00% per annum. The Bonds are not subject to redemption prior to maturity. The School District is required to make yearly payments starting in 2002 and continuing through 2014 of \$132,319 to a set aside account to be used for the principal payments.

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|---------------------|
| 2011-12 | \$ 95,000 |
| 2012-13 | 635,000 |
| 2010-11 | 36,125 |
| 2013-14 | 635,000 |
| 2014-15 | 635,000 |
| | <u>\$ 2,036,125</u> |

SCHOOL BOND LOAN FUND

During the year ended June 30, 2006 the School District borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on debt associated with the construction of the District's school. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. During the year ended June 30, 2006 the School District borrowed \$44,582 from the school bond loan fund to cover debt payments on the 1997 bond issue. At June 30, 2006, the balance due to the School Bond Loan Fund, including accrued interest of \$315,594 was \$1,551,881.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1997 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds.

The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rates at June 30, 2006 were 4.5% and 4.684545%.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE G - LONG-TERM DEBT (Continued)

OTHER LONG-TERM DEBT

The School District has several installment loans payable which are detailed below.

SCHEDULE OF LOANS PAYABLE

| Purpose of Loan | Date of Issue | Original Amount | Maturity | Interest Rate | Balance 06/30/06 |
|-----------------|---------------|------------------|----------|---------------|------------------|
| 2000 School Bus | 06/28/04 | <u>\$ 56,673</u> | 06/28/08 | 2.99% | <u>\$ 28,146</u> |

As of June 30, 2006, the aggregate maturities of loans payable are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|------------------|---------------|------------------|
| 2006-2007 | \$ 14,373 | \$ 676 | \$ 15,049 |
| 2007-2008 | 13,773 | 241 | 14,014 |
| | <u>\$ 28,146</u> | <u>\$ 917</u> | <u>\$ 29,063</u> |

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2005:

| | Balance June 30, 2005 | Increase | Decrease | Balance June 30, 2006 | Current Portion |
|----------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
| 1997 Refunding Bonds | \$ 2,225,000 | \$ 0 | \$ 115,000 | \$ 2,110,000 | \$ 115,000 |
| 2001 Series A | 1,700,000 | 0 | 50,000 | 1,650,000 | 50,000 |
| 2001 Series B-QZAB | 2,000,000 | 0 | 0 | 2,000,000 | 0 |
| 2001 QZAB Bonds | 35,500 | 0 | 35,500 | 0 | 0 |
| Installment Loans | 42,106 | 0 | 13,960 | 28,146 | 14,373 |
| School Bond Loan | 1,191,705 | 44,582 | 0 | 1,236,287 | 0 |
| | <u>7,194,311</u> | <u>44,582</u> | <u>214,460</u> | <u>7,024,433</u> | <u>\$ 179,373</u> |
| Accrued Interest | 263,677 | 68,678 | 0 | 332,355 | |
| Accrued Benefits | 189,750 | 12,750 | 0 | 202,500 | |
| TOTAL | <u>\$ 7,647,738</u> | <u>\$ 126,010</u> | <u>\$ 214,460</u> | <u>\$ 7,559,288</u> | |

As of June 30, 2006, the aggregate maturities of long-term debt for the next five years are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------------|---------------------|---------------------|
| 2006-2007 | \$ 174,373 | \$ 194,292 | \$ 368,665 |
| 2007-2008 | 173,773 | 186,425 | 360,198 |
| 2008-2009 | 160,000 | 178,596 | 338,596 |
| 2009-2010 | 160,000 | 170,896 | 330,896 |
| 2010-2011 | 160,000 | 163,034 | 323,034 |
| 2011-2012 | 255,000 | 155,066 | 410,066 |
| 2012-2013 | 800,000 | 146,790 | 946,790 |
| 2013-2018 | 2,180,000 | 599,562 | 2,779,562 |
| 2018-2023 | 1,000,000 | 343,750 | 1,343,750 |
| 2023-2028 | 500,000 | 119,376 | 619,376 |
| 2028-2031 | 1,461,287 | 338,094 | 1,799,381 |
| | <u>\$ 7,024,433</u> | <u>\$ 2,595,881</u> | <u>\$ 9,620,314</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The District contributions for the year ended June 30, 2006 was \$310,582 and equal the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2006 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2005 annual report. This report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000

The State of Michigan is responsible for the payment of retirement benefits.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE I - RESERVE FUND BALANCES

The Debt Service fund balance is designated for retirement of debt. According to generally accepted accounting principles, designated fund balances are reported as part of the unreserved fund balance.

NOTE J - FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

| | | |
|--|---------------|--------------------|
| 2005-06 Foundation | | \$ 6,875.00 |
| Less Local Support: | | |
| Non-Homestead Tax Value | 14,585,777 | |
| Multiplied by mills | <u>0.018</u> | |
| Total Local Support | 262,544 | |
| Divided by General Education K-12 membership | <u>442.36</u> | |
| Calculated Local Support | | <u>(593.51)</u> |
| Foundation Grant Allowance Per Pupil | | <u>\$ 6,281.49</u> |

NOTE K - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

| | |
|------------------------------------|-------------------|
| Total current payments per R7120 | \$ 224,624 |
| Less State Grants: | |
| School Breakfast | (11,040) |
| Plus: | |
| Homeland Security Grant | 2,668 |
| MiBlsi Grant | 8,000 |
| REAP Grant | 20,302 |
| USDA Commodities | <u>16,566</u> |
| Total Federal Financial Assistance | <u>\$ 261,120</u> |

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2006 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

ADAMS TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE L - CONTINGENT LIABILITIES

Risk Pool

Adams Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Adams Township School District joined together with other school districts currently operating a common risk management and insurance program. Adams Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Adams Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the School District

NOTE M - SUBSEQUENT EVENT

School Loan Fund: On August 18, 2006, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the Note shall not exceed \$475,000 and 3.68% per annum, respectively. The note matures on August 20, 2007. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ADAMS TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|--|-------------------------|------------------------|---------------------|------------------------|
| | <u>Original</u> | <u>Final</u> | <u>(GAAP Basis)</u> | <u>Final to Actual</u> |
| REVENUES: | | | | |
| Local sources | \$ 377,532 | \$ 420,571 | \$ 453,929 | \$ 33,358 |
| State sources | 2,933,579 | 2,921,224 | 2,987,744 | 66,520 |
| Federal sources | 144,366 | 142,423 | 142,091 | (332) |
| TOTAL REVENUE | <u>3,455,477</u> | <u>3,484,218</u> | <u>3,583,764</u> | <u>99,546</u> |
| EXPENDITURES: | | | | |
| Instruction | 2,263,423 | 2,270,645 | 2,236,730 | 33,915 |
| Supporting services | 1,762,384 | 1,312,086 | 1,267,926 | 44,160 |
| TOTAL EXPENDITURES | <u>4,025,807</u> | <u>3,582,731</u> | <u>3,504,656</u> | <u>78,075</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (570,330) | (98,513) | 79,108 | 177,621 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Incoming transfers - other schools | 475,000 | 11,500 | 11,409 | (91) |
| Operating transfers out | (46,000) | (56,500) | (57,442) | (942) |
| Interest payments | (49,000) | (49,000) | (50,550) | (1,550) |
| Loan payments | (13,000) | (13,000) | (10,610) | 2,390 |
| Other outgoing transfers | (88,000) | (88,000) | (70,543) | 17,457 |
| Total other financing sources (uses) | 279,000 | (195,000) | (177,736) | (17,264) |
| NET CHANGE IN FUND BALANCE | <u>\$ (291,330.00)</u> | <u>\$ (293,513.00)</u> | (98,628) | <u>\$ 160,357.00</u> |
| FUND BALANCE - BEGINNING OF YEAR | | | <u>617,602</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 518,974</u> | |

SUPPLEMENTAL FINANCIAL INFORMATION

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>2005</u> |
|---------------------------------------|------------------|------------------|-----------------|------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Taxes: | \$ 290,000 | \$ 313,912 | \$ 23,912 | \$ 266,364 |
| Other local sources: | | | | |
| Investment revenue | 9,100 | 13,402 | 4,302 | 10,359 |
| Driver's education fees | 1,000 | 7,900 | 6,900 | 9,545 |
| Rentals | 3,200 | 3,200 | - | 704 |
| Contributions | 61,000 | 60,511 | (489) | 60,084 |
| Miscellaneous | 56,271 | 55,004 | (1,267) | 28,485 |
| Total other local sources | 130,571 | 140,017 | 9,446 | 109,177 |
| Total local sources | 420,571 | 453,929 | 33,358 | 375,541 |
| State sources: | | | | |
| Unrestricted grant - State Aid | 2,799,676 | 2,785,490 | (14,186) | 2,822,513 |
| Restricted grants: | | | | |
| Driver's education | - | - | - | 2,342 |
| Special Education | 23,500 | 102,861 | 79,361 | 53,981 |
| Vocational education | 1,900 | 3,263 | 1,363 | 4,248 |
| At-risk | 96,148 | 95,594 | (554) | 90,979 |
| Other state revenue | - | 536 | 536 | 8,616 |
| Total restricted grants | 121,548 | 202,254 | 80,706 | 160,166 |
| Total state sources | 2,921,224 | 2,987,744 | 66,520 | 2,982,679 |
| Federal sources: | | | | |
| Title I | 98,517 | 98,517 | - | 124,906 |
| Title V | 1,459 | 2,716 | 1,257 | 4,912 |
| Title II | 31,447 | 30,190 | (1,257) | 31,764 |
| Other federal sources | 11,000 | 10,668 | (332) | - |
| Total federal sources | 142,423 | 142,091 | (332) | 161,582 |
| TOTAL REVENUES | 3,484,218 | 3,583,764 | 99,546 | 3,519,802 |
| EXPENDITURES: | | | | |
| Instruction: | | | | |
| Basic program: | | | | |
| Elementary School | 1,013,819 | 992,591 | 21,228 | 863,416 |
| High School | 942,800 | 902,923 | 39,877 | 893,005 |
| Total basic program | 1,956,619 | 1,895,514 | 61,105 | 1,756,421 |
| Added needs: | | | | |
| Special education - Elementary School | 142,874 | 155,539 | (12,665) | 147,176 |
| Compensatory education | 86,063 | 101,897 | (15,834) | 93,130 |
| At-Risk | 85,089 | 83,780 | 1,309 | 110,016 |
| Total added needs | 314,026 | 341,216 | (27,190) | 350,322 |

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
(Continued)
For the Year Ended June 30, 2006

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>2005</u> |
|--------------------------------------|------------------|------------------|------------------|------------------|
| Total instruction | <u>2,270,645</u> | <u>2,236,730</u> | <u>33,915</u> | <u>2,106,743</u> |
| Supporting services: | | | | |
| Pupil: | | | | |
| Guidance | <u>2,000</u> | <u>1,187</u> | <u>813</u> | <u>590</u> |
| Instructional staff: | | | | |
| Improvement of instruction | <u>9,884</u> | <u>7,677</u> | <u>2,207</u> | <u>12,038</u> |
| Library | <u>19,627</u> | <u>11,846</u> | <u>7,781</u> | <u>74,433</u> |
| Total instructional staff | <u>29,511</u> | <u>19,523</u> | <u>9,988</u> | <u>86,471</u> |
| General administration: | | | | |
| Board of education | <u>59,700</u> | <u>56,731</u> | <u>2,969</u> | <u>60,675</u> |
| Executive administration | <u>112,786</u> | <u>111,612</u> | <u>1,174</u> | <u>113,807</u> |
| Total general administration | <u>172,486</u> | <u>168,343</u> | <u>4,143</u> | <u>174,482</u> |
| School administration | | | | |
| Elementary | <u>122,306</u> | <u>121,459</u> | <u>847</u> | <u>147,208</u> |
| High School | <u>178,927</u> | <u>185,957</u> | <u>(7,030)</u> | <u>136,452</u> |
| Total school administration | <u>301,233</u> | <u>307,416</u> | <u>(6,183)</u> | <u>283,660</u> |
| Business-fiscal services | <u>120,725</u> | <u>112,461</u> | <u>8,264</u> | <u>109,382</u> |
| Operation & maintenance | <u>484,110</u> | <u>465,576</u> | <u>18,534</u> | <u>450,351</u> |
| Pupil transportation | <u>202,021</u> | <u>193,420</u> | <u>8,601</u> | <u>213,704</u> |
| Total supporting services | <u>1,312,086</u> | <u>1,267,926</u> | <u>44,160</u> | <u>1,318,640</u> |
| TOTAL EXPENDITURES | <u>3,582,731</u> | <u>3,504,656</u> | <u>78,075</u> | <u>3,425,383</u> |
| Excess of revenues over expenditures | <u>(98,513)</u> | <u>79,108</u> | <u>(177,621)</u> | <u>94,419</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Incoming transfers - other schools | <u>11,500</u> | <u>11,409</u> | <u>91</u> | <u>-</u> |
| Operating transfer out | <u>(56,500)</u> | <u>(57,442)</u> | <u>(942)</u> | <u>(40,340)</u> |
| Interest payments on loans | <u>(13,000)</u> | <u>(10,610)</u> | <u>2,390</u> | <u>(6,998)</u> |
| Other outgoing transfers | <u>(88,000)</u> | <u>(70,543)</u> | <u>17,457</u> | <u>(82,677)</u> |
| Loan payments | <u>(49,000)</u> | <u>(50,550)</u> | <u>(1,550)</u> | <u>(52,600)</u> |
| Total other financing sources (uses) | <u>(195,000)</u> | <u>(177,736)</u> | <u>(17,264)</u> | <u>(182,615)</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
(Continued)
Year Ended June 30, 2006

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>2005</u> |
|--|---------------------|-------------------|---------------------|-------------------|
| Excess (Deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>\$ (293,513)</u> | <u>(98,628)</u> | <u>\$ (194,885)</u> | <u>(88,196)</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>617,602</u> | | <u>705,798</u> |
| FUND BALANCE, END OF YEAR | | <u>\$ 518,974</u> | | <u>\$ 617,602</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
DEBT SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|-------------------|
| REVENUES: | | |
| Local sources: | | |
| Taxes: | | |
| Current taxes | \$ 424,864 | \$ 354,482 |
| Interest income | <u>1,488</u> | <u>1,314</u> |
| TOTAL REVENUES | <u>426,352</u> | <u>355,796</u> |
| EXPENDITURES: | | |
| Interest on bonds | 190,915 | 208,568 |
| Other expense | <u>1,380</u> | <u>1,730</u> |
| TOTAL EXPENDITURES | <u>192,295</u> | <u>210,298</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 234,057 | 145,498 |
| OTHER FINANCING SOURCES (USES) | | |
| Redemption of bond principal | (165,000) | (165,000) |
| SBLF loan proceeds | <u>44,582</u> | <u>145,180</u> |
| TOTAL OTHER FINANCING SOURCES | <u>(120,418)</u> | <u>(19,820)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>113,639</u> | <u>125,678</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>595,001</u> | <u>469,323</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 708,640</u> | <u>\$ 595,001</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

June 30, 2006

| | School Food Service | Athletic | Capital Projects | Totals Memorandum Only | |
|--|------------------------|------------------|---------------------|---------------------------|------------------|
| | | | | 2006 | 2005 |
| ASSETS AND OTHER DEBITS | | | | | |
| Cash | \$ 20,698 | \$ 13,121 | \$ 16,565 | \$ 50,384 | \$ 17,545 |
| Receivables | - | 5,161 | - | 5,161 | 4,133 |
| Inventory | 4,224 | - | - | 4,224 | 3,112 |
| Due from other governmental units | 878 | - | - | 878 | 1,106 |
| TOTAL ASSETS | \$ 25,800 | \$ 18,282 | \$ 16,565 | \$ 60,647 | \$ 25,896 |
| LIABILITIES | | | | | |
| Accounts payable | \$ - | \$ 2,003 | \$ - | \$ 2,003 | \$ - |
| Due to other funds | 1,068 | - | - | 1,068 | 340 |
| TOTAL LIABILITIES | 1,068 | 2,003 | - | 3,071 | 340 |
| FUND EQUITY: | | | | | |
| Fund balance - reserved | 4,224 | - | - | 4,224 | 3,112 |
| Fund balance - unreserved | 24,732 | 16,279 | 16,565 | 57,576 | 30,556 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 25,800 | \$ 18,282 | \$ 16,565 | \$ 60,647 | \$ 30,896 |

ADAMS TOWNSHIP SCHOOL DISTRICT
CAPITAL PROJECTS FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

| | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|
| REVENUES: | | |
| Local sources: | | |
| Interest | \$ 156 | \$ - |
| EXPENDITURES: | | |
| Buildings and additions | - | - |
| Equipment and furniture | - | - |
| TOTAL EXPENDITURES | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 156 | - |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | 11,409 | 5,000 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 11,565 | 5,000 |
| FUND BALANCE, BEGINNING OF YEAR | 5,000 | - |
| FUND BALANCE, END OF YEAR | \$ 16,565 | \$ 5,000 |

ADAMS TOWNSHIP SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

| | <u>2006</u> | <u>2005</u> |
|--|------------------|-----------------|
| REVENUES: | | |
| Local sources: | | |
| Adult lunches | \$ 3,110 | \$ 2,627 |
| A-La-Carte | 887 | 927 |
| Student lunches | 37,611 | 31,414 |
| Miscellaneous | 21,901 | 13,231 |
| Total local sources | <u>63,509</u> | <u>48,199</u> |
| State sources | <u>14,459</u> | <u>12,392</u> |
| Federal sources: | | |
| School lunch program | 102,463 | 97,482 |
| USDA entitlements | 14,421 | 11,620 |
| USDA bonus entitlements | 2,145 | 2,942 |
| Total federal sources | <u>119,029</u> | <u>112,044</u> |
| TOTAL REVENUES | <u>196,997</u> | <u>172,635</u> |
| EXPENDITURES: | | |
| Salaries | 63,656 | 60,155 |
| Employee benefits | 57,261 | 53,677 |
| Supplies, materials, and other | 84,696 | 76,373 |
| TOTAL EXPENDITURES | <u>205,613</u> | <u>190,205</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (8,616) | (17,570) |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | <u>26,033</u> | <u>7,834</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 17,417 | (9,736) |
| FUND BALANCE, BEGINNING OF YEAR | <u>7,315</u> | <u>17,051</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 24,732</u> | <u>\$ 7,315</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
ATHLETIC FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

| | <u>2006</u> | <u>2005</u> |
|--|------------------|------------------|
| REVENUES: | | |
| Local sources: | | |
| Gate receipts | \$ 29,461 | \$ 5,255 |
| Other | <u>16,811</u> | <u>30,570</u> |
| TOTAL REVENUES | <u>46,272</u> | <u>35,825</u> |
| EXPENDITURES: | | |
| Purchase services | <u>68,234</u> | <u>61,714</u> |
| TOTAL EXPENDITURES | <u>68,234</u> | <u>61,714</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (21,962) | (25,889) |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers in | <u>20,000</u> | <u>27,506</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (1,962) | 1,617 |
| FUND BALANCE, BEGINNING OF YEAR | <u>18,241</u> | <u>16,624</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 16,279</u> | <u>\$ 18,241</u> |

ADAMS TOWNSHIP SCHOOL DISTRICT
TRUST & AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2006

| | Balance July 1, 2005 | Receipts | Disbursements | Balance June 30, 2006 |
|------------------------|-------------------------|-----------|---------------|--------------------------|
| ASSETS: | | | | |
| Cash | \$ 12,948 | \$ 63,668 | \$ 57,340 | \$ 19,276 |
| LIABILITIES: | | | | |
| Due to Student Groups: | | | | |
| Elementary School | \$ 2,908 | \$ 29,931 | \$ 21,177 | \$ 11,662 |
| High School | 10,040 | 33,737 | 36,163 | 7,614 |
| TOTAL LIABILITIES | \$ 12,948 | \$ 63,668 | \$ 57,340 | \$ 19,276 |

ADAMS TOWNSHIP SCHOOL DISTRICT
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2006

| | <u>Balance</u> <u>July 1, 2005</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Balance</u> <u>June 30, 2006</u> |
|-------------------|---------------------------------------|-----------------|----------------------|--|
| ASSETS: | | | | |
| Investments | \$ 45,712 | \$ 19,921 | \$ 21,487 | \$ 44,146 |
| LIABILITIES: | | | | |
| Scholarship funds | \$ 45,712 | \$ 19,921 | \$ 21,487 | \$ 44,146 |



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Adams Township School District
Painesdale, Michigan

In connection with our audit of the financial statements of Adams Township School District, as of and for the year ended June 30, 2006, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 - "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local unites, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. The District needs to designate an Electronic Transaction Officer, develop a written policy regarding procedures and internal controls, and initiate a board resolution to adopt the ACH policy. The Electronic Transaction Officer that the District chooses will be responsible for the ACH agreements that including payment approval, accounting, reporting, and compliance with the ACH policy.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the general purpose financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

July 27, 2006